

**Public Employee Post-Employment Benefits Commission Meeting on May 31, 2007**  
**California State Employees GASB 45 Actuarial Valuation as of July 1, 2007**  
**GRS Presentation**

- ◆ Actuarial Basis
  - The actuarial valuation was based on the provisions of GASB 43 and 45, and Actuarial Standards of Practice No. 6
  - “Best estimate” assumptions were used
  - Assumptions relating to termination, disability, retirement, mortality and salary increases were based on the most recent valuations produced by CalPERS
  - Assumptions unique to healthcare benefits were recommend by GRS, including average retiree healthcare costs, healthcare inflation, and participation in healthcare program at retirement
  - Benefits valued were based on plan provisions in effect as of March 1, 2007
- ◆ Key Economic Assumptions
  - Discount rate depends on level of pre-funding and three funding scenarios were modeled:
    - 4.5% for current pay-as-you-go funding
    - 7.75% for alternative full funding
    - 6.125% for alternative partial funding
  - Select and ultimate healthcare inflation assumption was used
    - Trend rate of 10% in first year declining steadily each year to 4.5% after ten years
    - Assumes healthcare growth at current level of 10% per year is not sustainable in the long term
    - For example, if healthcare benefits grow at 10% per year while other goods and service grow at 3% per year, then healthcare benefits would consume a disproportionate share of the overall economy
    - The select and ultimate trend assumption is a generally accepted actuarial practice
  - Implicit/Explicit Subsidy
    - State expected to pay an *explicit* premium subsidy of \$1.026 billion for FYE 2008
    - State also expected to pay an *implicit* premium subsidy of \$336 million for FYE 2008 because premium rates for employees and pre-Medicare retirees are pooled
    - The implicit and explicit subsidies were based on the benefit provisions in effect as of March 1, 2007

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**California State Employees GASB 45 Valuation Results as of July 1, 2007  
(\$ in Billions)**

	<b>Pay-as-you-go Funding 4.5%</b>	<b>Partial Funding 6.125%</b>	<b>Full Funding 7.75%</b>
<b>Unfunded Actuarial Liability</b>	\$47.88	\$38.24	\$31.28
<b>Annual Required Contribution</b>	\$3.59	\$2.98	\$2.59
<b>Employer Contribution</b>	\$1.36	\$1.98	\$2.59
<b>Net OPEB Obligation at FYE 2008</b>	\$2.23	\$1.00	\$0.00